SMIFS LIMITED

CIN: U51109WB1993PLC060987
Vaibhav (5F), 4, Lee Road, Kolkata – 700 020
Tel: (91 33) 4011 5400/ 6634 5400
Email ID: pmla@smifs.com Website: www.smifs.com

Policy Framework and Procedure Manual

Of

SMIFS Limited

For

Prevention of Money Laundering (PML) / Combating Financing of Terrorism (CFT)

Policy Authored By:

Shri Sudipto Datta
Compliance Officer

Policy Approved By:

Shri Ashiwini Tripathi
Managing Director

Shri Rahul Kayan
Chief Executive Officer

Shri Rajesh Kumar Kochar
Designated Director

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1. BACKGROUND:

1.1 Money Laundering (ML) may be defined as cleansing of dirty money obtained from legitimate or illegitimate activities including drug trafficking, terrorism, organized crime, fraud and many other crimes with the objective of hiding its source and rendering it in legally usable form. It is any act or attempted act to conceal or disguise the identity of illegally obtained proceeds so that they appear to have originated from legitimate sources. The process of Money Laundering involves creating a web of financial transactions so as to hide the origin of and true nature of these funds.

1.2 Successful Money Laundering activity spawning yet more crime exists at a scale that can and does have a distorting and disruptive effect on economies, marketplaces, the integrity of jurisdictions, market forces, democracies etc. It is, in short, a cancer, existing for one purpose only, to make crime and illegal activity worthwhile.

1.3 The General Assembly of United States adopted the political declaration and global program of action in 1990 in its worldwide drive against money laundering and also enjoined upon member states to adopt legislation and program against laundering on a national level.

1.4 To combat money-laundering activities, the Government of India enacted the Prevention of Money Laundering Act, 2002 (hereinafter referred to as the "Act") on January 17, 2003.

1.5 The basic objective of the Act is three fold, viz.:

- To prevent, combat and control money laundering.
- To confiscate and seize the property obtained from the laundered money.
- To deal with any other issue connected with money laundering in India.

1.6 The Prevention of Money Laundering Act, 2002 **(in short "PMLA/ the Act")** has been brought into force with effect from 1st July, 2005. Necessary Notifications / Rules under the said Act have been published in the Gazette of India on 1st July 2005 by the Department of Revenue, Ministry of Finance Government of India. The PMLA has been further amended vide notification dated March 6, 2009 and inter alia provides that violating the prohibitions on manipulative and deceptive devices, insider trading and substantial acquisition of securities or control as prescribed in Section 12 A read with Section 24 of the Securities and Exchange Board of India Act, 1992 (SEBI Act) will now be treated as a scheduled offence under Schedule B of the PMLA.

1.7 As per the provisions of the PMLA, every banking company, financial institution (which includes chit fund company, a co-operative bank, a housing finance

institution and a non-banking financial company) and intermediary (which includes a Stock-Broker, Authorized Person, Share Transfer Agent, Banker to an issue, Trustee to a trust deed, Registrar to an issue, merchant banker, underwriter, portfolio manager, investment adviser and any other intermediary associated with securities market and registered under Section 12 of the SEBI Act) shall have to maintain a record of all the transactions; the nature and value of which has been prescribed in the Rules under the PMLA.

1.8 Securities and Exchange Board of India (hereinafter referred to as "**SEBI**") vide its Circular Ref No.: ISD/CIR/RR/AML/1/06 dated January 18, 2006 laid down broad guidelines on Anti Money Laundering Standards. As per the Circular, all the intermediaries registered with SEBI under Section 12 of the SEBI Act were advised to ensure that a proper policy framework on anti-money laundering measures was put in place. This was essentially in conformity with the Prevention of Money Laundering Act, 2002 and the Rules framed there under by SEBI.

1.9 Pursuant to the amendments made to the PMLA and Rules thereunder, updated guidelines in the context of recommendations made by Financial Action Task Force (in short "**FATF**") on Anti Money Laundering standards has been published by SEBI by its Circular No. SEBI/HO/MIRSD/DOS3/CIR/P/2018/104 dated 04-July-2018 and it has been mandated that the guidelines shall apply to the Branches and Subsidiaries of SMIFS Limited located abroad, especially, in countries which do not or insufficiently apply the FATF Recommendations, to the extent local laws and regulations permit. It has been further stated that when local applicable laws and regulations prohibit implementation of these requirements, the same shall be brought to the notice of SEBI.

1.10 In the light of Circulars issued by National Stock Exchange of India Ltd (hereinafter referred to as **"NSE**") and Circulars issued by BSE Ltd. (hereinafter referred to as **"BSE"**), Multi Commodity Exchange of India Limited (hereinafter referred to as **"MCX**") and Communiqué issued by Central Depository Services Ltd. (hereinafter referred to as **"CDSL"**) Circulars issued by National Securities Depository Ltd. (hereinafter referred to as **"NSDL"**) in continuation to the new circular of Securities and Exchange Board of India (in short **"SEBI**") bearing Circular No. CIR/MIRSD/1/2014 dated March 12, 2014 and ISD/AML/CIR-1/2009 dated September 01, 2009, there are additional requirements to be fulfilled and clarifications with regard to existing requirements mentioned in the Master Circular on Anti Money Laundering (AML) issued vide SEBI circular no. ISD/AML/CIR-1/2008 dated December 19, 2008.

1.11 For the purpose of implementing the provisions of Prevention of Money Laundering Act and Guidelines issued thereunder**, SMIFS Limited (Formerly Stewart & Mackertich Wealth Management Limited** (in short "**the Company/ SMIFS**") have adopted a Policy Framework on Anti Money Laundering and Combating Financing of Terrorism (in short **"the PML & CFT Policy"**).

2. THE MONEY LAUNDERING PROCESS:

2.1 Money can be obtained illegally from various illegal activities such as Ponzi Scheme, sell illegal counterfeit goods, illegal sports gambler, Embezzling, Hacker as well as criminal activities like drug trafficking, terrorism, organized crime and fraud. As criminals attempt to conceal the true origin and ownership of the proceeds of their criminal activities and provide a legitimate cover for their source of income they usually follow three stages:

(A) **PLACEMENT:** This is where the criminal proceeds are first injected into the system. It is also the stage where those who are educated, briefed and alert to the process of money laundering, have the best chance of detecting what is happening and are thus best able to thwart and disrupt the process at the outset. At this stage, very often larger amounts of money are divided and distributed into smaller amounts to avoid suspicion and then paid into a series of bank accounts, arose to purchase securities, or life policies or other assets, sometimes many kinds of assets, all to achieve the prime purpose of being able to inject the tainted money or value into the legitimate mainstream financial/business system. Eg: A criminal having huge crime proceeds in form of cash, can deposit this cash in bank accounts maintained with difference banks, in the name of his relatives, friends and associates, in small amounts.

(B) **LAYERING:** After the injection has taken place and the tainted money or value has entered and become mixed up in the main mass of money or value in the financial system, it is spun around different accounts, different names, different ownerships, plus different instruments and investments. All these movements are designed to disguise the origins of the money or value and thus confuse those who might be attempting to trace the money or value back to the root, criminal source. Facilitated by the birth of electronic funds transfer technology the fast movement of funds through multiple jurisdictions often with different laws, creates major problems for investigators of identification, access and ultimately achieving successful prosecutions.

(C) **INTEGRATION:** Placing the laundered proceeds back into the economy in such a way that they re-enter the financial system as apparently legitimate funds. Integration means the reinvestment of those funds in an apparently legitimate business so that no suspicion of its origin remains and to give the appearance of legitimizing the proceeds.

3. MONEY LAUNDERING IN INDIA:

With the growing financial sector, India is vulnerable to money laundering activities. Some common sources of illegal proceeds in India are narcotics trafficking, illegal trade in gems, smuggling, corruption, stock market scam and income tax evasion. Large portions of illegal proceeds are laundered through the alternative remittance

system called "hawala". Under this system, individuals transfer of funds from once country to another or from one state to another, often without the actual movement of currency.

4. PREVENTION OF MONEY LAUNDERING ACT, 2002:

4.1 To combat Money Laundering activities, the Government of India enacted the Prevention of Money Laundering Act, 2002 on January 17, 2003.

4.2 Section 3 of the Prevention of Money Laundering Act, 2002 defines the offences or laundering. In terms, of this section "*whosoever directly or indirectly attempts to indulge or knowingly assists or knowingly is a party or is actually involved in any process or activity connected with the proceeds of crime and projecting it as untainted property shall be guilty of an offence of money laundering*".

4.3 The term proceeds of crime have been defined under Section 2(u) of the Act viz: "*Any property derived or obtained, directly or indirectly, by any person as a result of criminal activity relating to a scheduled offence or the value of any such property*."

4.4 The said section broadly states that if a person is involved in the process of projecting proceeds of crime as untainted property, then he shall be guilty of money laundering for indulging in the said process of the following three elements / activities:

4.5 Possession or ownership of the proceeds of crime or property acquired from proceeds of crime, which is being reflected as untainted property.

4.6 Transactions relating to proceeds of crime like converting its form.

4.7 Concealment of the original transaction and/or creating ghost transactions from concealing actual transactions. E.g. Possessing Benami Property, Unexplained cash credits, unexplained expenditure, bogus or fictitious accounts, unexplained investments, stock market scam.

5. FINANCIAL INTELLIGENCE UNIT (FIU) – INDIA

5.1 The Government of India set up Financial Intelligence Unit-India (FIU-IND) on November 18, 2004 as an independent body to report directly to the Economic Intelligence Council (EIC) headed by the Finance Minister.

5.2 FIU-IND has been established as the central national agency responsible for receiving, processing, analyzing and disseminating information relating to suspect financial transactions, FIU-IND is also responsible for coordinating and stretching efforts of national and international intelligence and enforcement agencies in pursuing the global efforts against money laundering and related crimes.

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6. APPLICABILITY:

6.1 The PML & CFT Policy applies to SMIFS.

6.2 In terms of rules framed under the Act, inter aila, the Company shall:
6.2.1 Maintain a record of all transactions, the nature and value of which may be prescribed, whether such transactions comprise of single transaction or a series of transactions integrally connected to each other, and where such series of transactions take place within a month.
6.2.2 Furnish information of transactions referred to in Clause (a) to the Director within such time as may be prescribed.
6.2.3 Verify and maintain the records of the identity of all its Clients, in such a manner as may be prescribed.

6.3 As per provision of section 2(n) of the Act, term "Intermediary" means:
"A stock-broker, sub-broker, share transfer agent, banker to an issue, trustee to a trust deed, registrar to an issue, merchant banker, underwriter, portfolio manager, investment adviser and any other intermediary associated with securities market and registered under section 12 of the Securities and Exchange Board of India Act, 1992 (15 of 1992).

6.4 Further in terms of rules made under the Act, the Company shall maintain a record of:
6.4.1 All cash transactions of the value of more than rupees ten lakhs or its equivalent in foreign currency;
6.4.2 All series of cash transactions integrally connected to each other which have been valued below rupees ten lakhs or its equivalent in foreign currency where such series of transactions have taken place within one calendar month and the monthly aggregate exceeds an amount of ten lakh rupees or its equivalent in foreign currency;
6.4.3 All cash transaction where forged or counterfeit currency notes or bank notes have been used as genuine and where any forgery of a valuable security has taken place;
6.4.4 All suspicious transactions whether or not made in cash and including, inter-alia, credits or debits into from any non-monetary account such as Demat Account, security account maintained by the registered intermediary; identity and current address or addresses including permanent address or addresses of the Client, the nature of business of the Client and his financial status; Provided that where it is not possible to verify the identity of the Client at the time of opening an account or executing any transaction, the banking company, financial institution and intermediary, as the case may be, shall verify the identity of the Client within a reasonable time after the account has been opened or the transaction has been executed.

6.5 It may, however, be clarified that for the purpose of suspicious transactions reporting apart from 'transactions integrally connected', 'transactions remotely connected or related' shall also be considered.

6.6 "Suspicious transactions" means a transaction whether or not made in cash which to a person acting in good faith –
6.6.1 Gives rise to a reasonable ground of suspicion that it may involve the proceeds of crime, or
6.6.2 Appears to be made in circumstances of unusual or unjustified complexity, or
6.6.3 Appears to have no economic rationale or bonafide purpose.

7. IMPLEMENTATION OF PML REQUIREMENTS FOR SMIFS LIMITED:

SMIFS Limited (in short "the Company/ SMIFS") is Company registered under the provisions of the Companies Act, 1956 with limited liabilities, having its registered office at 4, Stayajit Ray Dharani (formerly Lee Road/ O C Ganguly Sarani) and registered with Securities and Exchange Board of India (in short "SEBI") as a Stock Broker and Depository Participant, thus a Securities Market Intermediary as per the various provisions enshrined in the relevant Acts of SEBI. The Company is into the following activities:

(A) **Stock Broking Services:** SMIFS is a Trading Member of National Stock Exchange of India Limited (NSE); BSE Limited (BSE); Multi Commodity of Exchange of India Limited (MCX) and Indian Commodity Exchange Limited (ICEX) with SEBI Registration Number: INZ000220635.

Stock Broking Services are extended to (i) Institutional Clients such as Banks, Mutual Funds, Insurance Companies, Pension Funds, Alternate Investment Funds, Foreign Financial Institutions, etc.; (ii) High Networth Individuals; (iii) Retail Participants.

Settlement of Funds and Securities are settled through SEBI Registered Custodians in case of Institutional Clients. Thus the Company has no access to the source of such Funds and Securities. However any transactions which may give doubt to the nature and style of Operations shall be brought to the notice of the Principal Officer by the PML & CFT Compliance Team.

The Company shall follow and implement strict Know Your Client (KYC) norms before enlisting clients for both HNI and Retail Clients. The Company shall also ensure that all trades are settled through the banking channels and that all shares are electronically transferred to the beneficial owner through settlement systems of the exchanges. In order to ensure monitoring of transactions the procedures as laid and enshrined in **"Procedure & Process Flow Manual for Prevention of Money Laundering Surveillance & Risk Assessment"** shall be adhered and strictly implemented.

(B) **Depository Services:** SMIFS is a Depository Participant of National Securities Depository Limited (NSDL) bearing DP ID – IN301629 and Central Depository Services (India) Limited (CDSL) bearing DP ID – 12016000 with SEBI Registration Number IN-DP-414-2019.

Depository activity involves transfer of securities which have monetary value. As such, Depository activity has been brought within the purview of the PML & CFT Policy. KYC norms for opening accounts shall be followed in Depository Division as entailed in Stock Broking Services. In order to ensure monitoring of transactions the procedures as laid and enshrined in **"Procedure & Process Flow Manual for Prevention of Money Laundering Surveillance & Risk Assessment"** shall be adhered and strictly implemented.

(C) **Portfolio Management & Research Services:** SMIFS is also registered as a Portfolio Manager with SEBI Registration Number INP000004623 and Research Analyst with SEBI Registration Number INH300001474.

The Company shall follow and implement strict KYC norms and would ensure the financial soundness and the risk appetite of the Clients, for providing the Portfolio Management Services offered by the Company. The PML & CFT Compliance Department of the Company will prepare a detailed report on the same and submit to the Principal Officer of the Company on a Quarterly basis or as and when required if any, abnormalities are observed by the Compliance Department.

(D) **Distribution Services:** SMIFS is also registered with Association of Mutual Funds of India (AMFI) with ARN Code 3060 for the distribution of Mutual Fund Units of various reputed Asset Management Companies.

The Asset Management Companies carry out Due Diligence in accordance to their Internal Policies. However, the Company shall follow and implement strict KYC norms and would ensure the financial soundness and the risk appetite of the Clients, for providing the Portfolio Management Services offered by the Company. The PML & CFT Compliance Department of the Company will prepare a detailed report on the same and submit to the Principal Officer of the Company on a Quarterly basis or as and when required if any, abnormalities are observed by the Compliance Department.

8. OBLIGATION TO ESTABLISH POLICIES AND PROCEDURES:

8.1 Global measures taken to combat drug trafficking, terrorism and other organized and serious crimes have all emphasized the need for financial institutions, including securities market intermediaries, to establish internal procedures that effectively serve to prevent and impede money laundering and terrorist financing. The PMLA is

in line with these measures and mandates that the Company should ensure the fulfillment of all the statutory obligations.

8.2 To be in compliance with these obligations, the Senior Management of the Company shall be fully committed to establishing appropriate policies and procedures for the prevention of Money Laundering (ML) and Terrorist Financing (TF) and ensuring their effectiveness and compliance with all relevant legal and regulatory requirements. The Company shall:
8.2.1 Issue a statement of policies and procedures, on a group basis where applicable, for dealing with ML and TF reflecting the current statutory and regulatory requirements;
8.2.2 Ensure that the content of these Directives are understood by all staff members;
Regularly review the policies and procedures on the prevention of ML and TF to ensure their effectiveness. Further, in order to ensure the effectiveness of policies and procedures, the Principal Officer and Compliance Officer shall review this PML & CFT policy regularly as per the extant laws.
8.2.3 Adopt client acceptance policies and procedures which are sensitive to the risk of ML and TF;
8.2.4 Undertake Client Due Diligence ("CDD") measures to an extent that is sensitive to the risk of ML and TF depending on the type of client, business relationship or transaction;
8.2.5 Have a system in place for identifying, monitoring and reporting suspected ML or TF transactions to the law enforcement authorities;
8.2.6 Develop staff members' awareness and vigilance to guard against Money Laundering and Terrorist Financing.

8.3 Financial Action Task Force (FATF) has provided Guidance on Emerging Terrorist Financing Risks by its Policy Document published in October 2015. The said Guidance shall be taken into account for the purpose of understanding Terrorist Financing Risks.

9. POLICIES AND PROCEDURES TO COMBAT MONEY LAUNDERING SHALL COVER:

9.1 Communication of group policies relating to prevention of ML and TF to all management and relevant staff that handle account information, securities transactions, money and client records etc. whether in branches, departments or subsidiaries;

9.2 Client Acceptance Policy and Client Due Diligence measures, including requirements for proper identification;

9.3 Maintenance of records;

9.4 Compliance with relevant statutory and regulatory requirements;

9.5 Co-operation with the relevant law enforcement authorities, including the timely disclosure of information;

9.6 Role of internal audit or compliance function to ensure compliance with the policies, procedures, and controls relating to the prevention of ML and TF, including the testing of the system for detecting suspected money laundering transactions, evaluating and checking the adequacy of exception reports generated on large and/or irregular transactions, the quality of reporting of suspicious transactions and the level of awareness of front line staff, of their responsibilities in this regard. The internal audit function shall be independent, adequately resourced and commensurate with the size of the business and operations, organization structure, number of clients and other such factors.

9.7 Financial Action Task Force (FATF) has provided Guidance on Professional Money Laundering by its Policy Document published in July 2018. The said Guidance shall be taken into account for the purpose of understanding Money Laundering.

10. ANTI MONEY LAUNDERING PROCEDURES:

10.1 SMIFS lays down written procedures to implement the anti-money laundering provisions as envisaged under the PMLA. Such procedure includes inter alia, the following three specific parameters, which are related to the overall **'Client Due Diligence Process'**:

a) Policy for Acceptance of Clients.
b) Procedure for identifying the clients.
c) Transaction monitoring and reporting especially Suspicious Transactions Reporting **(STR).**

11. CLIENT DUE DILIGENCE:

11.1 The Client Due Diligence ("CDD") measures comprise the following:

a) Before registering client, obtain sufficient information in order to identify persons who beneficially own or control the account. Apart from obtaining information related to Client's identity, address, contact details etc., the Company shall also obtain details with respect to Shareholders, Promoters from the Institutional client and it shall be verified independently. In this process, the Company shall be able to find out who is authorized to operate the client's account and who is ultimately controlling the account. Whenever it is apparent that the securities acquired or maintained through an account are beneficially owned by a party other than the client, that party should be identified using client identification and verification procedures. To identify the ultimate beneficial ownership or control the following steps should be taken:

i. **For clients other than individuals or trusts:** Where the client is a person other than an individual or trust, viz., company, partnership or unincorporated association/body of individuals, the Company shall identify the beneficial owners of the client. The "Beneficial Owner" is the natural person or persons who, whether acting alone or together, or through one or more juridical person, exercises control through ownership or who ultimately has a controlling ownership interest. Controlling ownership interest means-

1. Controlling more than 25% of shares or capital or profits of the juridical person, where the juridical person is a company;
2. More than 15% of the capital or profits of the juridical person, where the juridical person is a partnership; or
3. More than 15% of the property or capital or profits of the juridical person, where the juridical person is an unincorporated association or body of individuals.

In cases where there exists doubt as to whether the person with the controlling ownership interest is the beneficial owner or where no natural person exerts control through ownership interests, the identity of the natural person exercising control over the juridical person through voting rights, agreement, arrangements or in any other manner.

Where no natural person is identified under the above measure, the identity of the relevant natural person who holds the position of senior managing official should consider.

ii. **For client which is a trust:** Where the client is a trust, the Company shall identify the beneficial owners of the client and take reasonable measures to verify the identity of such persons, through the identity of the settler of the trust, the trustee, the protector, the beneficiaries with 15% or more interest in the trust and any other natural person exercising ultimate effective control over the trust through a chain of control or ownership.

iii. **Exemption in case of listed companies:** Where the client or the owner of the controlling interest is a company listed on a stock exchange, or is a majority-owned subsidiary of such a company, it is not necessary to identify and verify the identity of any shareholder or beneficial owner of such companies.

iv. **Applicability for foreign investors:** Dealing with foreign investors' may be guided by the clarifications issued vide SEBI circulars CIR/MIRSD/11/2012 dated September 5, 2012 and CIR/ MIRSD/ 07/ 2013 dated September 12, 2013, for the purpose of identification of beneficial ownership of the client. As per SEBI guidelines to identify the

beneficial owners, shareholding or beneficial interest equal to or above 25% to be consider.

As per Depositories Compliance the Company shall submit the details of beneficial ownership of the client's through half-yearly internal audits Report to the Depository.

b) Documents obtained from the Clients should be verified with original and same should be self-certified by the client and to be counter signed by the Verifying Official. Generally, Institutional Clients are recognized at global level. The Company shall verify client's identity and origin using services of Bloomberg, Reuters, internet services or any other reliable, independent source documents, data or information.

c) In person verification (the "IPV") shall be mandatory for all clients. Accounts shall be opened only for those persons whose in-person verification has been done as per the SEBI/Stock Exchange/Depository or other regulations in this regard. The client should visit the branch of the Company or the authorised official may visit the client at the residence/office to complete the in-per verification procedures.

d) Periodically conduct due diligence and scrutiny, i.e. perform ongoing scrutiny of the Clients transactions and account throughout the course of the business relationship to ensure that the transactions being conducted are consistent with the Company's knowledge of the client, its business and risk profile, taking into account, where necessary, the customer's source of funds.

e) The Company shall periodically update all documents, data or information of all clients and beneficial owners collected under the CDD process.

11.2. The Company shall within ten days, after the commencement of an account – based relationship with the Client, register the Clients KYC records with the Central KYC Records Registry (CKYCR) and shall communicate the KYC Identifier (KYC No.) in writing to the Client.

11.3 The Company shall retrieve the KYC records from the Central KYC Records Registry by using the KYC No., if provided by the Client and in case there is a change in the information of the client as existing in the records of Central KYC Records Registry, after obtaining additional or updated information from the Client shall immediately update the information onto the CKYCR Portal.

11.4 The Company considers it necessary, in order to verify the identity or address of the Client, or to perform enhanced due diligence or to build an appropriate risk profile of the Client.

11.5 The dealing officers of the Company shall take utmost care in carrying out Client Due Diligence/ KYC Verification while updating identity or address of the Client and shall be responsible for verifying the authenticity of such information.

11.6 The Company shall adhere to the additional measures and norms as specified in the mandated laws with regard to Digital KYC and the Policies and Procedures of the Company.

11.7 Financial Action Task Force (FATF) has provided Guidance on Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion with a Supplement on Customer Due Diligence in November 2017. The said Guidance shall be taken into account for the purpose of understanding Customer Due Diligence Process.

11.8 Financial Action Task Force (FATF) has provided Guidance on Concealment of Beneficial Ownership by its Policy Document published in July 2018. The said Guidance shall be taken into account for the purpose of understanding Beneficial Ownership Process.

12. POLICY FOR ACCEPTANCE OF CLIENTS:

12.1 The Company shall develop Client Acceptance Policies and Procedures that aim to identify the types of clients that are likely to pose a higher than average risk of ML or TF. By establishing such policies and procedures, the Company will be in a better position to apply client due diligence on a risk sensitive basis depending on the type of client business relationship or transaction. In a nutshell, the following safeguards are to be followed while accepting the clients:

a) No Client account should be opened in a fictitious / benami name or on an anonymous basis.

b) Parameters of Risk perception of the client are defined in terms of:
   1. Clients' location (registered office address, correspondence addresses and other addresses if applicable);
   2. Nature of business activity, trading turnover etc. and
   3. Manner of making payment for transactions undertaken to enable categorization of clients into low, medium and high risk. Clients of Special Category (as given below) may, if necessary, be classified as higher risk. For such clients, higher degree of due diligence and regular update of Know Your Client (KYC) profile should be performed.

c) Documentation like KYC, Rights and Obligations, Risk Disclosure Document and other information to be collected in respect of different classes of clients depending on perceived risk and having regard to the requirements of Rule 9 of the PML Rules, Directives, Circulars and guidelines issued by SEBI from time to time. Refer to list of documents to be collected along with KYC, given below.

d) Ensure that a Client account is not opened where the dealing officers of the Company is unable to apply appropriate clients due diligence measures/ KYC policies. This may be applicable in cases where it is not possible to

ascertain the identity of the client, information provided to the Company is suspected to be non-genuine, perceived non-co-operation of the client in providing full and complete information. The Company should not continue to do business with such a person and file a suspicious activity report. The dealing officers of the Company should also evaluate whether there is suspicious trading in determining whether to freeze or close the account. The Company should be cautious to ensure that it does not return securities or money that may be from suspicious trades. However, necessary consultation should be made with the relevant authorities in determining what action it should take when it suspects suspicious trading.

e) The circumstances under which the client is permitted to act on behalf of another person / entity should be clearly laid down. It should be specified in what manner the account should be operated, transaction limits for the operation, additional authority required for transactions exceeding a specified quantity / value and other appropriate details. Further the rights and responsibilities of both the persons (i.e. the agent- client registered with us, as well as the person on whose behalf the agent is acting) should be clearly laid down. Adequate verification of a person's authority to act on behalf the client should also be carried out.

f) Necessary checks and balance to be put into place before opening an account so as to ensure that the identity of the client does not match with any person having known criminal background or is not banned in any other manner, whether in terms of criminal or civil proceedings by any enforcement agency worldwide.

Before opening of clients' account, check should be done to verify whether the client's name matches with names in any of the following lists:

- SEBI Debarred List
- United Nations Security Council (UNSC)
- Politically Exposed Persons (PEP)
- Office of Foreign Access and Control given by US Treasury Dept. (OFAC)
- Financial Action Task Force (FATF)
- Watch out Investors- www.watchoutinvestors.com
- Such other list that may be specified by the Regulators/Compliance Department from time to time

g) Follow the Client identification procedure given below.

h) The Dealing Officer(s) shall necessarily revisit the CDD process when there are suspicions of Money Laundering or Financing of Terrorism.

13. RISK BASED APPROACH:

13.1 It is generally recognized that certain clients may be of a higher or lower risk category depending on the circumstances such as the client's background, type of business relationship or transaction etc. As such, the Company shall apply each of the Client Due Diligence measures on a risk sensitive basis. The basic principle

enshrined in this approach is that the Company shall adopt an enhanced client due diligence process for higher risk categories of clients.

13.2 Conversely, a simplified client due diligence process may be adopted for lower risk categories of clients. In line with the risk-based approach, the type and amount of identification information and documents that the Company shall obtain necessarily depend on the risk category of a particular client.

13.3 Further, low risk provisions shall not apply when there are suspicions of ML/FT or when other factors give rise to a belief that the customer does not in fact pose a low risk.

13.4 The Company shall carry out risk assessment to identify, assess and take effective measures to mitigate its money laundering and terrorist financing risk with respect to its clients, countries or geographical areas, nature and volume of transactions, payment methods used by clients, etc. The risk assessment shall also take into account any country specific information that is circulated by the Government of India and SEBI from time to time, as well as, the updated list of individuals and entities who are subjected to sanction measures as required under the various United Nations' Security Council Resolutions these can be accessed at:

(a) http://www.un.org/sc/committees/1267/aq_sanctions_list.shtml, &
(b) http://www.un.org/sc/committees/1988/list.shtml).

13.5 The risk assessment carried out shall consider all the relevant risk factors before determining the level of overall risk and the appropriate level and type of mitigation to be applied. The assessment shall be documented, updated regularly and made available to competent authorities and self-regulating bodies, as and when required.

13.6 Financial Action Task Force (FATF) has provided Guidance for a Risk Based Approach for Securities Sector on October 26, 2018. The said Guidance Note shall be taken into account by SMIFS for the Risk Based Approach for Securities Division of the Company.

14. CLIENT CATEGORIZATION:

14.1 Each client shall be marked into 3 Categories, namely High Risk, Medium Risk and Low Risk. The parameters of clients will be placed under Low, Medium and High Risk category based on the followings:

a) Client's' location (Permanent address, Communications / correspondence addresses, Registered Office Address in case of Institutional client and other addresses if applicable);
b) Nature of business activity, tracing turnover etc., and
c) Manner of making payment for transactions undertaken.

14.2 **Category – A: High Risk**,

14.2.1 This Category of Clients should be classified as Clients doing large activity in Dormant Account, trading on a regular basis in illiquid scrips in large volume and quantity, those who have defaulted in the past and have suspicious background are to be considered as High Risk Clients. The Exchange specifies a list of Illiquid Securities where higher due diligence is to be exercised by the Broker. The list is displayed in the official web-sites of the NSE and BSE for the information of Client. The trade pattern in such scrips by the clients of the Company should be monitored. In case of trading in high volumes in any such illiquid scrips compared to Exchange Volume, the Client shall be asked to submit necessary clarification.

14.2.2 The below-mentioned categories of clients have been classified as **Clients of Special Category (CSC)** and are considered to be High Risk Clients. The categories are as follows:

a) Non resident clients;
b) High networth clients;
c) Trust, Charities, Non-Governmental Organizations (NGOs) and organizations receiving donations;
d) Companies having close family shareholdings or beneficial ownership;
e) Politically Exposed Persons (PEP) are individuals who are or have been entrusted with prominent public functions in a foreign country, e.g., Heads of States or of Governments, senior politicians, senior government/judicial/military officers, senior executives of state-owned corporations, important political party officials, etc. The additional norms applicable to PEP as contained in Client Identification Procedure of this PML & CFT Policy document shall also be applied to the accounts of the family members or close relatives of PEPs;
f) Companies offering foreign exchange offerings;
g) Clients in high risk countries (i.e., where existence / effectiveness of money laundering controls is suspect, where there is unusual banking secrecy, Countries active in narcotics production, Countries where corruption (as per Transparency International Corruption Perception Index) is highly prevalent, Countries against which government sanctions are applied, Countries reputed to be any of the following – Havens / sponsors of international terrorism, offshore financial centers, tax havens, countries where fraud is highly prevalent). While dealing with clients in high risk countries where the existence/effectiveness of money laundering control is suspect, intermediaries apart from being guided by the Financial Action Task Force (FATF) statements that identify countries that do not or insufficiently apply the FATF Recommendations published by the FATF on its website (www.fatf- gafi.org), shall also independently access and consider other publicly available information;
h) Non face to face clients;
i) Clients with dubious reputation as per public information available etc.;

j) Cash transactions involving counterfeit notes or currencies or any forgery of valuable securities or documents for enabling transactions.
k) Minors
l) Housewives;
m) Senior Citizens;
n) Illiterate and Blind;

14.2.3 The above-mentioned list is only illustrative and the Company shall exercise independent judgment to ascertain whether any other set of clients shall be classified as CSC or not.

14.3 **Category – B: Medium Risk**

Category – B - Intra-Day clients or speculative clients whose turnover is not in line with the financials declared are considered as Medium Risk clients.

14.4 **Category – C: Low Risk**

Category – C - Corporates / HNIs having respectable social and financial standing, Clients who make payment on time and take delivery of shares can be considered Low Risk Clients

15. CLIENT IDENTIFICATION PROCEDURE:

15.1 The KYC Policy of the Company shall clearly spell out the client identification procedure to be carried out at different stages i.e. while establishing the client relationship, while carrying out transactions for the client or when the Company has doubts regarding the veracity or the adequacy of previously obtained client identification data.

15.2 The Company shall be in compliance with the following requirements while putting in place a Client Identification Procedure (CIP):

a) The Company shall proactively put in place appropriate risk management systems to determine whether their client or potential client or the beneficial owner of such client is a Politically Exposed Person. Such procedures shall include seeking relevant information from the client, referring to publicly available information or accessing the commercial electronic databases of PEPS. Further, the enhanced CDD measures and shall also be applicable where the beneficial owner of a client is PEP.
b) The Dealing Officers of the Company are required to obtain senior management approval for establishing business relationships with PEPs. Where a client has been accepted and the client or beneficial owner is subsequently found to be, or subsequently becomes a PEP, the Dealing

Officers of the Company shall obtain senior management approval to continue the business relationship.

c) The Company shall also take reasonable measures to verify the sources of funds as well as the wealth of clients and beneficial owners identified as PEP.

d) The client shall be identified by the Dealing Officers of the Company by using reliable sources including documents / information. The Dealing Officers of the Company shall obtain adequate information to satisfactorily establish the identity of each new client and the purpose of the intended nature of the relationship.

e) The Client's identification should be clearly verified while registering the client. The dealing officers of Company should verify the officially valid documents (i.e. Passport, Driving License, proof of possession of Aadhaar Number, Voter's ID, Job Card issued by NREGA duly signed by an officer of State Government, Letter issued by National Population Register containing details of name, address or any other document as notified by the Central Government in consultation with the Regulator) submitted by the Client with the originals and after satisfying with the details, the Dealing Officer of the Company should put the rubber stamp of Verified with originals and should be counter signed by the official who has verified the documents in original. The Dealing Officer of the Company should verify the PAN with the web-site of Income Tax Department, to check the name and the PAN given by the client. Preferably, the Dealing Officer of the Company should also speak to the client as well as the introducer over telephone number provided by the Client and Introducer, independently. In case the officially valid documents furnished by a Foreign National does not contain the proof of address, in such circumstances Letter issued by Foreign Embassy and/or documents issued by Government Departments shall be accepted by the Dealing Officer.

f) The information collected by the Dealing Officers of the Company must be adequate enough to satisfy competent authorities (regulatory / enforcement authorities) in future that due diligence was observed by the Dealing Officers in compliance with the directives. Each original document shall be seen prior to acceptance of a copy.

g) In-Person verification of clients should be done by the authorised official of the Company only or as specified by the Regulators from time to time. The client should visit the branch of the Company or the authorised official may visit the client at the residence/office address provided by the client and complete the in-per verification.

h) For low risk clients, reliance shall be placed on a self-certified copy of the documents required to prove identity and address. For high-risk clients, as a measure to enhance the due diligence process, the copies of identification documents shall be attested by government gazetted officers or notarised by a public notary or by any other person who has opened an account with SMIFS after adhering to KYC norms stipulated under this PML & CFT Policy.

i) For high-risk clients, SMIFS may also obtain additional information to establish the customer's identity or a confirmatory certificate from a credit or financial institution subject to the PMLA directive.

j) The failure or refusal by prospective client falling under high-risk category to provide satisfactory identification evidence within 30 days of seeking information and/or without adequate explanation may lead to a suspicion that the investor is engaged in money laundering. The same shall be noted and reported by the Dealing Officers to the Principal Officer of the Company. In such circumstances, the Principal Officer may consider making a suspicious activity report.

k) In case of Non Resident clients, remittance only from authorized banking channels will be accepted.

l) Clients should not be activated to trade in derivative segment unless the clients submit a valid proof of financial information.

m) The Client Identification programme for existing clients should be carried out by the Compliance Department once in every six months by way of conducting In-Person Verification and collecting of various documents from the clients. The Dealing Officers should collect financial documents (Bank Statement / Demat Statement – Not more than 2 months old) as well as PAN Card and recent coloured passport sized photographs of the clients.

16. KNOW YOUR CLIENT (KYC) NORMS:

16.1 SEBI has prescribed the minimum requirements relating to KYC for certain classes of registered intermediaries from time to time. Taking into account the basic principles enshrined in the KYC norms, which have already been prescribed, or which may be prescribed by SEBI from time to time, the Company shall frame their own internal directives based on their experience in dealing with their clients and legal requirements as per the established practices. Further, the Company shall conduct ongoing due diligence where it notices inconsistencies in the information provided. The underlying objective shall be to follow the requirements enshrined in the PMLA, SEBI Act and Regulations, directives and circulars issued thereunder so that the Company is aware of the clients on whose behalf it is dealing.

16.2 The Company shall formulate and implement a Client Identification Process which shall incorporate the requirements of the PMLA Rules Notification No. 9/2005 dated July 01, 2005 and Notification No. 13/2009 dated November 12, 2009 (as amended from time to time), which notifies rules for maintenance of records of the nature and value of transactions, the procedure and manner of maintaining and time for furnishing of information and verification of records of the identity of the clients and such other additional requirements that it considers appropriate to enable it to determine the true identity of its clients. PMLA (Maintenance of Records) Rules, 2005, published vide Notification G.S.R. 444(E), dated 1.7.2005, published in the Gazette of India, Extraordinary, Part 2, Section 3(1), dated 1.7.2005, that have recently been updated vide Gazette Notification No. G.S.R.582(E) dated August 19,

2019 and SEBI Master Circular on Guidelines on Anti-Money Laundering (AML)/CFT/ PMLA dated October 15, 2019 shall be adhered by the Company.

16.3 It may be noted that irrespective of the amount of investment made by clients, no minimum threshold or exemption is available to the Company from obtaining the minimum information/documents from clients regarding the verification of the records of the identity of clients. Further no exemption from carrying out CDD exists in respect of any category of clients. In other words, there shall be no minimum investment threshold/ category-wise exemption available for carrying out CDD measures by the Company. The Company shall strictly implement this.

16.4 The Company shall adopt appropriate KYC procedures and internal controls measures to:

a) Determine and document the true identity of the customers who establish relationships, open accounts or conduct significant business transactions and obtain basic background information on customers;
b) Assess the money laundering risk posed by customers' expected use of Company products and services;
c) Protect the Company from the risks of doing business with any individual or entity whose identity cannot be determined or who refuses to provide information, or who have provided information that contains significant inconsistencies which cannot be resolved after due investigation.

16.5 List of Documents to be Collected along with KYCs:

16.5.1 **Individual, HUF and Minor:**

a) Recent Coloured Passport Sized Photograph of the client.
b) Proof of residence (any two of Passport/ Driving License / Voters' ID Card / Ration Card/ Any other photo-id registration etc.).
c) Photocopy of Photo PAN Card.
d) Photocopy of Client Master Report / Holding Statement (not more than two months old)/ Transaction Statement (not more than two months old) for the Demat Account(s).
e) Photocopy of recent Bank Statement (not more than two months old)/ Bank Pass Book or Letter from Banker along with the photocopy of the cheque leaf.

16.5.2 **Corporate and Trust:**

a) Recent Coloured Passport Sized Photograph of at least two Directors or two Trustees.
b) Proof of residence (any two of Passport/ Driving License / Voters' ID card / Ration Card / Any other photo-id registration etc.) of two Directors or two Trustees.
c) Photocopy of PAN Card or I.T. Return acknowledgement or Declaration in Form 60 or Form 61 from the two Directors or two Trustees.

d) Photocopy of Client Master Report / Holding Statement (not more than two months old) / Transaction Statement for the Demat Account(s) (not more than two months old) of the Company or Trust.
e) Photocopy of recent Bank Statement (not more than two months old) / Bank Pass Book or Letter from Banker of the Company or Trust along with the photocopy of the cheque leaf.
f) Board Resolution.
g) Memorandum and Articles of Association / Trust Deed.
h) Networth Certificate duly certified by Auditors.
i) Income Tax Return and Annual Reports for the last 3 Financial Years.

Note: Any one of the Directors or Trustees to sign on all the pages and also on their respective photograph.

16.6 **Re-KYC:**

16.6.1 Re KYC is integral part of PML & CFT Policy. As mandated under regulations, Client's are to be requested/advised to provide self-attested photocopies of financial details, fresh proof of current address, valid proof of identity on a regular basis, preferably on a half-yearly basis.

16.6.2 These periodical submission of documents by the clients are to be verified with the details already available with the company which were provided by the client at the time of registration and/or subsequently submitted/provided during the course of association.

16.6.3 Specifically, Re KYC for dormant account is done as and when the client request for re activation of the account. However, for High Risk/Clients of Special Category, Re-KYC of documents is done depending upon based on the consensus of the AML monitoring team and the supervision of the Principal Officer.

16.7 **e-KYC**

16.7.1 The Company shall develop an secured electronic application for Digital KYC Process for Online Account Opening, which shall be made available for undertaking KYC of its Clients and such KYC process shall be undertaken only through its authenticated Application developed for the said purpose.

16.7.2 The Company shall ensure that the access of the e-KYC Application shall be controlled by the Company and its designated officers and it should be ensured that the same is not used by unauthorized persons. The Application shall be accessed only through login-id and password or Live OTP or Time OTP controlled mechanism given by the Company to its authorized officials.

16.7.3 The Authorised Officials of the Company shall carry the In-Person Verification and verify the information filled in the e-KYC Application with all the original officially valid documents lying in possession of the client and shall capture the live photograph of such original officially valid documents in clearly readable and identifiable form. The Authorised Officials shall also ensure that all the relevant mandatory fields of the said Applications are filled up properly.

16.7.4 All the activities related to the Digital KYC Process shall be adhered by the Company and its Authorised Officials, duly trained in this regard, as per the guidelines framed under the KYC Registration Procedure of the company.

16.7.4 All the activities related to the Digital KYC Process shall be in strict compliances of the Acts relating to Information Technology and any other extant rules/ regulations/ laws as notified by the Union and State Governments of India.

17. RELIANCE ON THIRD PARTY FOR CARRYING OUT CLIENT DUE DILIGENCE (CDD)

17.1 The Company does not outsource any activities to a third party or may rely on a third party for the purpose of (a) identification and verification of the identity of a client and (b) determination of whether the client is acting on behalf of a beneficial owner, identification of the beneficial owner and verification of the identity of the beneficial owner but the Company shall be ultimately responsible for CDD and undertaking enhanced due diligence measures, as applicable.

17.2 However, SEBI has permitted the CDD to be done by Registered Sub-Broker or their employees. The person carrying out CDD must clearly affix the requisite Stamp with name, designation, date and sub broker stamp to enable clear identification.

17.3 The following steps must be ensured by the Concerned Officer:

a) KYC download (wherever applicable);
b) PAN Verification from IT site for Number and exact name;
c) For scrutiny/background check of the clients, websites such as www.watchoutinvestors.com should be referred. Also, prosecution database /List of Vanishing Companies available on www.sebi.gov.in and RBI Defaulters Database available on www.cibil.com can be checked.

17.4 In case the client is already registered on KRA, we shall fetch client's data from KRA sites and compare the same current particulars and supporting documents submitted by the client. In case there is no discrepancy between the two, the data downloaded from KRA website may be considered for client identification purpose.

18. PERIODICAL REVIEW OF RISK CATEGORIZATION OF ACCOUNTS:

18.1 The Company shall put in place a system of periodical review of risk categorization of accounts. Such review of risk categorization of customers shall be

carried out at a periodicity of not less than once in six months. The Company shall be undertaking a review of all accounts existing as on June 30th and December 31st every year, but which were opened atleast six months prior to these two review dates – thus giving a vintage of atleast six months to each of the accounts being reviewed.

18.2 In case of any account wherein alerts are observed on a regular basis, the risk categorization would be increased based on the consensus of the AML monitoring team and the Principal Officer. Such a review would be done at least once every month.

18.3 Special attention is required for all complex, unusually large transactions / patterns which appear to have no economic purpose. The background including all documents, office records and clarifications pertaining to such transactions and their purpose will be-examined carefully and findings will be recorded. Such findings, records and related documents would be made available to auditors and also to SEBI/Stock Exchanges/FIU-IND/Other relevant authorities, during audit, inspection or as and when required. These records to be preserved for such period of time as required under PMLA 2002 or any rules made thereafter.

18.4 It would be ensured that record of transaction is preserved and maintained in terms of section 12 of the PMLA 2002 and / or rules made thereunder and that transaction of suspicious nature or any other transaction notified under section 12 of the act is reported to the appropriate law authority.

18.5 Further the accounts or financial assets shall be frozen for any particular client in case so required by any regulatory authority upon receiving a notice for the same.

19. RECORD KEEPING:

19.1 The Company shall ensure compliance with the record keeping requirements contained in the SEBI Act, 1992, Rules and Regulations made there-under, PMLA as well as other relevant legislation, Rules, Regulations, Exchange Bye-laws and Circulars.

19.2 The Company shall maintain such records as are sufficient to permit reconstruction of individual transactions (including the amounts and types of currencies involved, if any) so as to provide, if necessary, evidence for prosecution of criminal behavior.

19.3 Shall there be any suspected drug related or other laundered money or terrorist property, the competent investigating authorities would need to trace through the audit trail for reconstructing a financial profile of the suspect account. To enable this reconstruction, the Company shall retain the following information for the accounts of their clients in order to maintain a satisfactory audit trail:

a) The beneficial owner of the account;
b) The volume of the funds flowing through the account; and
c) For selected transactions:
- ❖ the origin of the funds;
- ❖ the form in which the funds were offered or withdrawn, e.g. cheques, demand drafts etc.
- ❖ the identity of the person undertaking the transaction;
- ❖ the destination of the funds;
- ❖ the form of instruction and authority

19.4 The Company shall ensure that all client and transaction records and information are available on a timely basis to the competent investigating authorities. Where required by the investigating authority, they shall retain certain records, e.g. client identification, account files, and business correspondence, for periods which may exceed those required under the SEBI Act, Rules and Regulations framed there-under PMLA, other relevant legislations, Rules and Regulations or Exchange bye-laws or circulars.

19.5 The Company shall put in place a system of maintaining proper record of transactions prescribed under Rule 3 of PML Rules as mentioned below:
a) All cash transactions of the value of more than rupees ten lakh or its equivalent in foreign currency;
b) All series of cash transactions integrally connected to each other, which have been valued below rupees ten lakh or its equivalent in foreign currency where such series of transactions have taken place within a month and the aggregate value of such transactions exceeds rupees ten lakh;
c) All cash transactions where forged or counterfeit currency notes or bank notes have been used as genuine and where any forgery of a valuable security or a document has taken place facilitating the transaction;
d) All suspicious transactions whether or not made in cash and by way of as mentioned in the Rules.

20. MAINTAINING INFORMATION:

20.1 The Company would maintain and preserve the following information in respect of transactions referred to in Rule 3 of PML Rules:
a) The nature of the transactions;
b) The amount of the transaction and the currency in which it is denominated;
c) The date on which the transaction was conducted; and
d) The parties to the transaction.

20.2 The Compliance team on a concurrent basis should review the above information.

21. RETENTION OF RECORDS:

21.1 The Company shall take appropriate steps to evolve an internal mechanism for proper maintenance and preservation of records and information in a manner that allows easy and quick retrieval of data as and when requested by the competent authorities. Further, the records mentioned in Rule 3 of PML Rules have to be maintained and preserved for a period of five years from the date of transactions between the client and the Company.

21.2 The Company shall formulate and implement the CIP containing the requirements as laid down in Rule 9 of the PML Rules and such other additional requirements that it considers appropriate. Records evidencing the identity of its clients and beneficial owners as well as account files and business correspondence shall be maintained and preserved for a period of five years after the business relationship between a client and the Company has ended or the account has been closed, whichever is later.

21.3 Thus, the following document retention terms shall be observed:

a) All necessary records of transactions, both domestic and international, shall be maintained at least for the minimum period prescribed under the relevant Act and Rules (PMLA and rules framed thereunder as well SEBI Act) and other legislations, Regulations or exchange bye-laws or circulars.

b) The Company shall maintain and preserve the record of documents evidencing the identity of its clients and beneficial owners (e.g., copies or records of official identification documents like passports, identity cards, driving licenses or similar documents) as well as account files and business correspondence for a period of five years after the business relationship between a client and the Company has ended or the account has been closed, whichever is later.

c) The Company shall maintain and preserve the record of information related to transactions, whether attempted or executed, which are reported to the Director, FIU-IND, as required under Rules 7 & 8 of the PML Rules, for a period of five years from the date of the transaction between the client and the Company.

d) The Company shall maintain and preserve the record of information related to transactions, whether attempted or executed w.r.t the depository division as well as its account files and business correspondence for a period of eight years after the business relationship between a client and the Company has ended or the account has been closed, whichever is later.

21.4 In situations where the records relate to on-going investigations or transactions, which have been the subject of a suspicious transaction reporting, they shall be retained until it is confirmed that the case has been closed.

22. MONITORING OF TRANSACTIONS:

22.1 Regular monitoring of transactions is vital for ensuring effectiveness of the AML procedures. This is possible only if the Company has an understanding of the normal activity of the client so that it can identify deviations in transactions / activities.

22.2 While determining suspicious transactions, the company shall be guided by definition of suspicious transaction contained in the Rules as amended from time to time.

22.3 The Company shall pay special attention to all complex, unusually large transactions / patterns which appear to have no economic purpose. The Company may specify internal threshold limits for each class of client accounts and pay special attention to transactions, which exceeds these limits.

22.4 The background including all documents/ office records/ memorandums /clarifications sought pertaining to such transactions and purpose thereof shall also be examined carefully and findings shall be recorded in writing.

22.5 Further such findings, records and related documents shall be made available to auditors and also to SEBI/ Stock Exchanges/ FIU-IND/ other relevant Authorities, during audit, inspection or as and when required. These records are required to be maintained and preserved for a period of five years from the date of transaction between the client and the Company as is required under the PMLA.

22.6 The Company shall ensure a record of the transactions is preserved and maintained in terms of Section 12 of the PMLA and that transaction of a suspicious nature or any other transactions notified under Section 12 of the Act are reported to the Director, FIU-IND.

22.7 Suspicious transactions shall also be regularly reported to the Principal Officer/ Designated Director/ Compliance Officer of the Company.

22.8 Further, the compliance cell of the Company shall randomly examine a selection of transactions undertaken by clients to comment on their nature i.e. whether they are in the nature of suspicious transactions or not.

23. SUSPICIOUS TRANSACTION - MONITORING:

23.1 Suspicious transactions involve funds derived from illegal activities or is intended or conducted in order to hide or disguise funds or assets derived from illegal activities (including, without limitation, the ownership, nature, source, location, or control of such funds or assets) as part of a plan to violate or evade any law or regulation or to avoid any transaction reporting requirement under the law; The transaction has no

business or apparent lawful purpose or is not the sort in which the particular customer would normally be expected to engage, and the financial institution knows of no reasonable explanation for the transaction after examining the available facts, including the background and possible purpose of the transaction.

23.2 It is difficult to define exactly what constitutes suspicious transactions and as such given below is a list of circumstances where transactions may be considered to be suspicious in nature. This list is only inclusive and not exhaustive. Whether a particular transaction is actually suspicious or not will depend on the background, details of the transactions and other facts and circumstances.

a) Complex/ unusually large transactions/ patterns which appear to have no economic purpose.
b) Client having suspicious background or links with known criminals.
c) Clients whose identity verification seems difficult.
    (i) False identification documents.
    (ii) Identification documents which could not be verified within reasonable time.
    (iii) Non face-to-face Client.
    (iv) Doubt over the real beneficiary of the account
    (v) Accounts opened with names very close to other established business entities
d) Client appears not to co-operate.
e) Clients based in high risk jurisdictions;
f) Use of different accounts by Client alternatively.
g) Sudden activity in dormant accounts.
h) Multiple accounts:
    (i) Large number of account having a common account holder, authorized signatory with no rationale.
    (ii) Unexplained transfers between multiple accounts with no rationale
i) Asset management services for clients where the sources of funds is not clear or not in keeping with the clients' apparent standing/business activity.
j) Substantial increase in business without apparent cause (Unusual activity compared to past transactions).
k) Clients transferring large sums of money to or from overseas locations with instructions for payment in cash;
l) Activity materially inconsistent with what would be expected from declared business.
m) Inconsistency with clients' apparent financial standing.
n) Any account used for circular trading.
o) Unusual transactions by Clients of Special Category (CSCs) and business undertaken by shell corporations, offshore banks/financial services and businesses reported to be in the nature of export-import of small items.
p) A transaction which gives rise to a reasonable ground of suspicion that it may involve the proceeds of crime.
q) A transaction, which appears to be a case of insider trading.

r) High trading activity in the relatively illiquid scrips;
s) Transactions reflect likely market manipulations.
t) Suspicious off market transactions.
u) Value of transaction just under the reporting threshold amount in an apparent attempt to avoid reporting.
v) Inconsistency in the payment pattern by the client.
w) Trading activity in account of high-risk clients based on their profile, business pattern and industry segment.
x) Accounts based as 'passed through'. Where no transfer of ownership of securities or trading is occurred in the account and the account is being used only for funds transfers / layering purposes.
y) Large deals at prices away from the market.
z) Suspicious off market transactions.
aa) Purchases made in one client's account and later on transferred to a third party through off market transactions through DP Accounts.
bb) Attempted transfer of investment proceeds to apparently unrelated third parties;
cc) Multiple transactions of value just below the threshold limit specified in PMLA so as to avoid possible reporting.
dd) An attempted transaction that gives rise to a reasonable ground of suspicion, that the transaction may involve proceeds of an offence specified in PMLA Act, regardless of the value involved or appears to be made in circumstances of unusual or unjustified complexity or have no bonafide purpose.

24. SUSPICIOUS TRANSACTION - REPORTING:

24.1 The Company shall ensure that appropriate steps are taken to enable suspicious transactions to be recognized and have appropriate procedures for reporting suspicious transactions.

24.2 While determining suspicious transactions, the Company shall be guided by the definition of a suspicious transaction contained in PML Rules as amended from time to time.

24.3 A list of circumstances, which may be in the nature of suspicious transactions, is given below. This list is only illustrative and whether a particular transaction is suspicious or not will depend upon the background, details of the transactions and other facts and circumstances:

a) Clients whose identity verification seems difficult or clients that appear not to cooperate;
b) Clients based in high risk jurisdictions;
c) Substantial increases in business without apparent cause;
d) Clients transferring large sums of money to or from overseas locations with instructions for payment in cash;

e) Attempted transfer of investment proceeds to apparently unrelated third parties;
f) Unusual transactions by CSCs and businesses undertaken by offshore banks/financial services, businesses reported to be in the nature of export-import of small items;

24.4 Any suspicious transaction shall be immediately notified to the Principal Officer of the Company. The notification may be done in the form of a detailed report with specific reference to the clients, transactions and the nature /reason of suspicion. However, it shall be ensured that there is continuity in dealing with the client as normal until told otherwise and the client shall not be told of the report/suspicion.

24.5 In exceptional circumstances, consent may not be given to continue to operate the account and transactions may be suspended in one or more jurisdictions concerned in the transaction or other action taken.

24.6 The Principal Officer and other appropriate Compliance, Risk Management and related staff members shall have timely access to client identification data and CDD information, transaction records and other relevant information.

24.7 It is likely that in some cases transactions are abandoned or aborted by clients on being asked to give some details or to provide documents. The Company shall report all such attempted transactions in STRs, even if not completed by clients, irrespective of the amount of the transaction.

24.8 The Company would adhere to additional measures for those clients of High Risk Countries, including countries where existence and effectiveness of money laundering controls is suspect or which do not or insufficiently apply FATF standards, enlisted as CSC. These measures may include a further enhanced scrutiny of transactions, enhanced relevant reporting mechanisms or systematic reporting of financial transactions, and applying enhanced due diligence while expanding business relationships with the identified country or persons in that country etc.

24.9 The Principal Officer shall furnish the information available related to any Suspicious Transaction to the Director and a copy of such information shall be retained by the Principal Officer for the purposes of official record.

25. LIST OF DESIGNATED INDIVIDUALS/ENTITIES:

25.1 An updated list of individuals and entities which are subject to various sanction measures such as freezing of assets/accounts, denial of financial services etc., as approved by the Security Council Committee established pursuant to various United Nations' Security Council Resolutions (UNSCRs) can be accessed at its website at **http://www.un.org/securitycouncil/sanctions/1267/aq_sanctions_list, https://www.un.org/securitycouncil/sanctions/1988/materials**

25.2 The Dealing Officers of the Company would ensure that accounts are not opened in the name of anyone whose name appears in said list.

25.3 The Dealing Officers of the Company shall continuously scan all existing accounts to ensure that no account is held by or linked to any of the entities or individuals included in the list. Full details of accounts bearing resemblance with any of the individuals/entities in the list shall immediately be intimated to SEBI and FIU-IND.

25.4 The Dealing Officers shall concurrently identify demat accounts having common account holder with no economic rationale. Unexplained transfers between the multiple accounts with no rationale should also be traced.

25.5 The Dealing Officers shall concurrently identify a transaction which is not in consonance with the financial status declared / shown by the client. Also unusual activities compared to past transactions, sudden activity in dormant accounts, activity inconsistent from declared business activity, should be traced. The Back Office system should be devised to support such surveillance system.

25.6 The Company shall put in place for identifying transactions, which may likely lead to market manipulation which appears to be insider trading and also any transactions which seems to have no bonafide intention. Regular communications by means of mailers, SMS, E-mail should be sent to clients at various intervals requesting them to update their latest financial details and KYC details with the Company.

25.7 SEBI & Stock Exchanges in usual course provided the Updated consolidated list of banned individuals / entities designated by the United Nations Security Council as received by them from Ministry of External Affairs (MEA). SMIFS at all material times would follow such updated list and implement the same for the purpose of client due diligence process of its existing and prospective clients its risk based approach. The last updated list as on April 3, 2019 has been received by the Company and the same has been taken note by the KYC Team for necessary Compliance.

25.8 The Company ensures that accounts are not opened in the name of anyone whose name appears in said list. The Company shall continuously scan all new accounts as well as all existing accounts to ensure that no account is held by or linked to any of the entities or individuals included in the list. Full details of accounts bearing resemblance with any of the individuals/entities in the list shall immediately be intimated to SEBI and FIU-IND.

26. PROCEDURE FOR FREEZING OF FUNDS, FINANCIAL ASSETS OR ECONOMIC RESOURCES OR RELATED SERVICES:

SMIFS LIMITED
CIN: U51109WB1993PLC060987
Vaibhav (5F), 4, Lee Road, Kolkata – 700 020
Tel: (91 33) 4011 5400/ 6634 5400
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26.1 The Company is aware that under Section 51A of the Unlawful Activities (Prevention) Act, 1967 (UAPA), relating to the purpose of prevention of, and for coping with terrorist activities was brought into effect through UAPA Amendment Act, 2008.

26.2 As per the aforementioned section, the Central Government is empowered to freeze, seize or attach funds and other financial assets or economic resources held by, on behalf of, or at the direction of the individuals or entities listed in the Schedule to the Order, or any other person engaged in or suspected to be engaged in terrorism.

26.3 The Government is also further empowered to prohibit any individual or entity from making any funds, financial assets or economic resources or related services available for the benefit of the individuals or entities listed in the Schedule to the Order or any other person engaged in or suspected to be engaged in terrorism.

26.4 The obligations shall be followed by the Company to ensure the effective and expeditious implementation of the procedure laid down in the UAPA Order dated August 27, 2009 as listed below:
26.4.1 To maintain updated designated lists in electronic form and run a check on the given parameters on a regular basis to verify whether individuals or entities listed in the schedule to the Order (referred to as designated individuals/entities) are holding any funds, financial assets or economic resources or related services held in the form of securities with them. In the event, particulars of any of customer/s match the particulars of designated individuals/entities, the Principal Officer shall immediately, not later than 24 hours from the time of finding out such customer, inform full particulars of the funds, financial assets or economic resources or related services held in the form of securities, held by such customer on their books to the Joint Secretary (IS.I), Ministry of Home Affairs, at Fax No.011-23092569 and also convey over telephone on 011- 23092736. The particulars apart from being sent by post should necessarily be conveyed through e-mail at jsis@nic.in.
26.4.2 The Company shall also send the particulars of the said communication through post/fax and through e-mail (sebi_uapa@sebi.gov.in) to the UAPA nodal officer of SEBI, Officer on Special Duty, Integrated Surveillance Department, Securities and Exchange Board of India, SEBI Bhavan, Plot No. C4-A, "G" Block, Bandra Kurla Complex, Bandra (E), Mumbai 400 051 as well as the UAPA nodal officer of the state/UT where the account is held, as the case may be, and to FIU-IND.

26.5 SEBI by its Circular dated 28.05.2019 has published and informed that in view of the reorganization of Divisions in the Ministry of Home Affairs and allocation of work relating to Countering of Terror Financing to the Counter Terrorism and Counter Radicalization (CTCR) Division, the Government has modified the earlier order dated August 27, 2009 by the Order dated March 14, 2019 for strict Compliance. SMIFS has

taken note of the present Order dated 14.03.2019 by its **Board Resolution dated 07.06.2019** and have made the Order a part and parcel of this PMLA & CFT Policy.

27. PROCEDURE FOR UNFREEZING OF FUNDS, FINANCIAL ASSETS OR ECONOMIC RESOURCES OR RELATED SERVICES:

27.1 Any individual or entity, if it has evidence to prove that the freezing of funds, financial assets or economic resources or related services, owned/held by them has been inadvertently frozen, shall move an application giving the requisite evidence, in writing, to the Company. On receipt of such request the Company shall inform and forward a copy of the application together with full details of the asset frozen to the nodal officer of IS-I Division of Ministry of Home Affairs (MHA) as per the contact details given in paragraph (b) above within two 21 working days.

28. REPORTING TO FINANCIAL INTELLIGENCE UNIT-INDIA:

28.1 In terms of the PML Rules, intermediaries are required to report information relating to cash and suspicious transactions to the Director, Financial Intelligence Unit-India (FIU-IND) at the following address:

Director, Financial Intelligence Unit-India
6th Floor, Hotel Samrat, Chanakyapuri,
New Delhi-110021
Website: http://fiuindia.gov.in

28.2 The company shall carefully go through all the reporting requirements and formats that are available on the website of FIU – IND under the Section Obligation of Reporting Entity – Furnishing Information – Reporting Format (https://fiuindia.gov.in/files/downloads/Filing_Information.html)

28.3 The Company shall file the Cash Transaction Report (CTR) (wherever applicable) for each month to FIU-IND by 15 of the succeeding month.

28.4 The Company shall file Non-Profit Organization Transaction Reports (NTRs) for each month to FIU-IND by 15th of the succeeding month.

28.5 The Suspicious Transaction Report (STR) shall be submitted within 7 days of arriving at a conclusion that any transaction, whether cash or non-cash, or a series of transactions integrally connected are of suspicious nature. The Principal Officer shall record his reasons for treating any transaction or a series of transactions as suspicious. It shall be ensured that there is no undue delay in arriving at such a conclusion. The Principal Officer of the Company will be responsible for timely submission of CTR, STR and NTR to FIU-IND.

28.6 Utmost confidentiality shall be maintained y the Company in filing of CTR and STR to FIU-IND. The reports shall be transmitted by speed/registered post/fax at the notified address.

28.7 The Company shall not require to file Nil reporting transaction to FIU-IND in case there are no cash/ suspicious/ non – profit organization transactions to be reported.

28.8 The Company shall not put any restrictions on operations in the accounts where an STR has been filed.

28.9 The Company and their directors, officers and employees (permanent and temporary) shall strictly prohibit themselves from disclosing ("tipping off") the fact that a STR or related information is being reported or provided to the FIU-IND. This prohibition on tipping off extends not only to the filing of the STR and/or related information but even before, during and after the submission of an STR. Thus, it shall be ensured that there is no tipping off to the client at any level.

28.10 The Company, irrespective of the amount of transaction and/or the threshold limit envisaged for predicate offences specified in part B of Schedule of PMLA, 2002, shall file STR if they have reasonable grounds to believe that the transactions involve proceeds of crime.

28.11 The reports submitted to FIU-IND shall be under the digital signature of the Principal Officer of the Company designated for PMLA as advised by FIU-IND, w.e.f 1st April, 2016.

29. APPOINTMENT OF AN OFFICER FOR REPORTING OF SUSPICIOUS TRANSACTIONS:

29.1 To ensure that the Company properly discharge their legal obligations to report suspicious transactions to the authorities, **Mr. Sudipto Datta** has been appointed as the "**Principal Officer"** of SMIFS Limited who would act as a central reference point in facilitating onward reporting of suspicious transaction and for playing an active role in the identification and assessment of potentially suspicious transactions. He shall have access to and be able to report to Senior Management at the next reporting level or the Board of Directors.

29.2 In addition to the existing requirement of a Principal Officer, the Company has also designated **Mr. Rajesh Kumar Kochar** as a "**Designated Director",** in term of Rule 2 (ba) of the PML Rules as per the definition of a Designated Director which is duly prescribed.

29.3 The Company shall communicate the details of the Principal Officer and Designated Director, such as, name designation and address to the Office of the Director, FIU – IND, in case of changes, if any.

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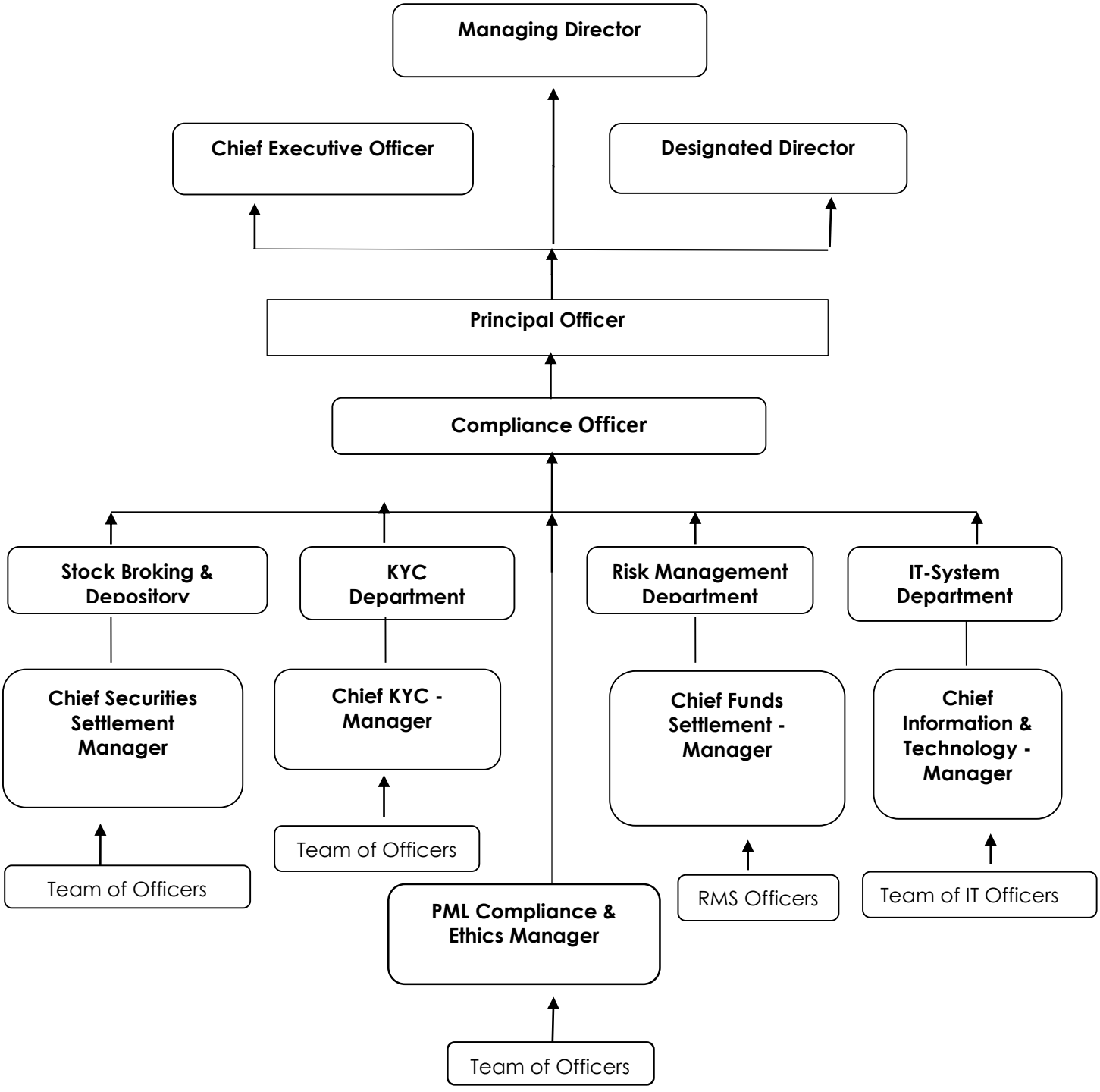
30. REPORTING- HEIRARCHY:



31. HIRING OF EMPLOYEES:

31.1 The Company shall have adequate screening procedures in place to ensure high standards when hiring employees. They shall identify the key positions within their own organization structures having regard to the risk of money laundering and terrorist financing and the size of their business and ensure the employees taking up such key positions are suitable and competent to perform their duties.

31.2 As the business of Stock Broking, Depository, Portfolio Management, Research and Distribution are both extremely confidential in nature, it is of prime importance that the prospective employee is of good character and high integrity. Thus the **Human Resources Department** of the Company is strongly advised to cross check all the references and should take adequate safeguards to establish the authenticity and genuineness of the persons before recruiting. The department should obtain the following documents:

A) Photographs; B) Proof of address; C) Identity proof; &
D) Proof of Educational Qualification

31.3 There should not be the slightest doubt in the person's past record of any impropriety, or other unacceptable conduct. The SEBI and other websites should also be checked to verify whether the names of the employees appear in their banned lists.

32. EMPLOYEES' TRAINING:

32.1 The employees are to be encouraged to attend seminars and other educational meetings to learn, update and broaden their understanding of Prevention of Money Laundering Act, in true letter and spirit. The Company shall have an ongoing employee-training programme so that the staff members are adequately trained in AML and CFT procedures.

32.2 All the Circulars issued by various Regulatory bodies including that of PMLA, are circulated to all the staff Members and the same are also being discussed in length, in the Training Program. Training program shall have special emphasis on frontline staff, back office staff, compliance staff, risk management staff and staff dealing with new clients. It is crucial that all those concerned fully understand the rationale behind these directives, obligations and requirements, implement them consistently and are sensitive to the risks of their systems being misused by unscrupulous elements.

32.3 The Dealing Officers should keep themselves updated and continuously upgrade themselves with the above mentioned policies and procedure and ensure that the higher management and all the sub-ordinates are made aware about the aforesaid guidelines.

32.4 Further, PML & CFT Compliance Department shall periodically sensitize the staff members of SMIFS with regards to compliance norms and the amendments in law from time to time.

33. INVESTORS & BUSINESS PARTNER EDUCATION:

33.1 The Implementation of AML/CFT measures mandates certain information from investors, which may be of personal nature or even considered unwarranted by the client. This is because such information was not required to be even asked for in the past. Such information can include documents evidencing source of funds/income tax returns/bank records etc. This can sometimes lead to raising of questions by the client with regard to the motive and purpose of collecting such information. There is, therefore, a need to sensitize the Authorized Persons and the clients about these requirements of law arising from AML and CFT framework and the duty cast on the Company. Queries from SMIFS office to the clients should be only through a Senior Officer and with complete confidentiality. The Company shall also publish on their website the PML & CFT Policy so as to educate the client of the objectives of the AML/CFT programme.

34. COMPLIANCE WITH VARIOUS REGULATIONS:

34.1 The dealing officers of the Company should be vigilant to comply with the various Rules, Regulations, Circulars issued by various regulators viz. SEBI, Stock Exchanges, Depository, Government Departments, etc. from time to time. The Department Heads and Branch Heads must update themselves with the latest updates on such rules and regulations and should impart knowledge of the same to their sub-ordinates from time to time.

34.2 If any, deviation or non-compliance, is detected, the same should be reported to the Principal Officer, Compliance Officer as well as Department Head immediately.

35. ROLE OF PML & CFT COMPLIANCE TEAM AND INTERNAL AUDIT:

35.1 The PML & CFT Compliance Team shall play an important role in ensuring Compliance of the above-policies and procedures. The Account Opening Team shall exercise adequate due diligence as stated above. There shall be periodic checking by the Principal Officer and the same report shall be properly filed.

35.2 It is the duty of the Principal Officer/ Compliance Officer, its sub-ordinates as well as the Internal Audit Team to ensure compliance with policies, procedures, and controls relating to prevention of money laundering and terrorist financing, including the testing of the system for detecting suspected money laundering transactions, evaluating and checking the adequacy of exception reports generated on large

and/or irregular transactions, the quality of reporting of suspicious transactions and the level of awareness of front line staff regarding their responsibilities in the said matter.

35.3 Any suspicious transaction or non-adherence to the policies, procedures and controls should be brought to the notice of the Principal Officer.

35.4 It is the duty of the Principal Officer and the Compliance Officer to regularly review the policies and procedures on the prevention of ML and TF to ensure their effectiveness.

35.5 The Company shall have a system of Concurrent Audit, which shall also include ensuring Compliance of the above policies. The Mangement shall note deviation or any inadequacy, if any in the report of the Concurrent Auditor for necessary action. The areas to be specially checked by the Concurrent Auditors shall be:

a) Due Diligence in KYC Norms
b) Enhanced Due Diligence
c) Client Risk Categorization
d) Re-KYC
e) Continuing Due-Diligence
f) Monitoring and Analyzing of Alerts
g) Generation of Exception Reports
h) Trading in Dormant Client Codes
i) Level of Awareness of Staff & Staff Training

36. CO-OPERATION WITH THE RELEVANT LAW ENFORCEMENT AUTHORITIES, INCLUDING THE TIMELY DISCLOSURE OF INFORMATION:

36.1 It is the duty of all the staff members in the organization to extend cooperation to the law enforcement authorities and it is the duty of the person concerned to provide timely information about any deviation or non-compliance to their Heads of Department as well as the Principal Officer and Compliance Officer immediately. It is important to note that **"TIME is of ESSENCE"** in detecting frauds and non-compliances.

37. ASSESSING TECHNICAL COMPLIANCE & MUTUAL EVALUATIONS:

37.1 Financial Action Task Force (FATF) has provided Guidance on Methodology for "Assessing Technical Compliance for effectiveness of AML/ CFT Systems" & "Mutual Evaluations" in February 2019 and thereafter followed by various circulars published time to time on Consolidated Processes & Procedures for Mutual Evaluations & Follow-Up – Universal Procedures of March 2019 and June 2019. The said Guidance & Procedure shall be taken into account for the purpose of effective Anti-Money Laundering & Countering Terrorist Financing Systems.

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38. REVIEW PROCEDURE:

In order to ensure the effectiveness of the policies and procedures on the prevention of Money Laundering and Terrorist Financing, it shall be reviewed once in every year and as and when required to incorporate the additions, changes, modifications etc., as directed by SEBI/FIU-IND and advised by FATF and such changes shall take place from their effective date. Further, the person doing such a review shall be different from the one who has framed such policies and procedures.

The Principal Officer shall be responsible to ensure that as and when the PML & CFT Policy is reviewed or updated, the same is consistent with the applicable laws and rules and to bring all the significant changes in the PML Act to the notice of Designated Director and place the reviewed PML & CFT Policy before the Board for its adoption.

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